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THE COTTON SITUATION

Summary

A somewhat more than normal decline in the world mill consumption of raw cotton occurred between January and February according to reports pertaining to cotton mill activity in most of the important cotton manufacturing countries of the world. Despite the curtailed rate of output, the Bureau of Agricultural Economics pointed out, manufacturers' sales of cotton textiles appear to have continued below production in most countries, a situation which has been reported almost continuously each month since last fall. This situation apparently has reflected partly a reduction in unfilled orders, and partly an accumulation of inventories.

In the United States, cotton mill activity, when adjusted for seasonal, showed comparatively little change in February and early March as compared with the restricted rate existing in January. In Great Britain some mills closed down completely for 2 weeks in February, yet this is said to have brought little improvement in the yarn supply situation. With the exception of Italy and Germany, the reduced sales during recent months have resulted in further curtailment of cotton consumption in most countries on the Continent of Europe, and also in Japan. Some improvement in cotton manufacturers' sales and output has recently occurred in China but mill activity is still probably only about one-fourth as high as a year ago. In India cotton mills apparently continued to run at or very near record levels.

Domestic cotton prices advanced about three-fourths of a cent per pound during February, but practically all of this advance was lost between March 2

and March 18. A slight advance occurred after March 18, bringing domestic prices about 1 cent per pound above the low point of last November. Developments in the supply situation apparently caused cotton prices to advance during February, whereas the subsequent decline was due at least in part to disturbed political conditions in Europe and perhaps in part to the continued unfavorable trend in cotton consumption.

The recent referendum with respect to marketing quotas indicates that a very large majority of the domestic cotton farmers will cooperate in the 1938 cotton adjustment program and suggests that the actual acreage may not differ greatly from the national acreage allotments of about 26,300,000 acres. This acreage, with yields equal to the average for either the past 5 or 10 years, would give a 1938 domestic crop 7-3/4 to 8-3/4 million bales less than the 18,900,000 bales harvested during the current season.

In view of the marked reduction in prices received for the current crop in most foreign countries and the accumulation of unsold cotton in the hands of producers in some countries, particularly China, it is expected that the 1938-39 foreign acreage and production may be somewhat less than in the current season. It seems quite likely, therefore, that unless yields per acre are very exceptional, the 1938-39 world production will be materially less than the record crop of 1937-38. In view of the current world consumption prospects however, it is quite possible that the world carry-over on August 1 will be sufficiently above a year earlier to offset the reduced world production.

PRICES

Advance in February followed by decline in March

Despite further declines in cotton mill activity in foreign countries and comparatively little change in the immediate domestic cotton textile situation, domestic cotton prices advanced about three-fourths of a cent per pound during February. From March 2 to March 18, however, practically all of this advance was lost. On the latter date Middling 7/8 inch cotton in the 10 designated markets averaged about 8 $\frac{1}{2}$ cents which was about the same as in January and early February, but still nearly 1 cent per pound above the low point of last November. Between March 18 and March 23 prices strengthened slightly but varied within a range of less than one-fourth cent.

The strength displayed by domestic cotton prices during February apparently was due largely to passage of "New Farm Act". This is accounted for by the fact that the Act set the domestic production goal both for 1938 and 1939 at between 10 and 11 $\frac{1}{2}$ million bales and also reduced the possibilities of the Government loan stocks being marketed before August 1, 1939, and even after that date by comparatively small amounts. The decline in cotton prices following March 2 was no doubt due in part to the disturbed political conditions in Europe, although reports with respect to cotton textile sales and output continued mostly unfavorable.

In relation to most foreign growths American cotton prices at Liverpool continued more favorable to the consumption of American cotton than for any substantial period of months since 1932-33.

EXPORTS

During the first 7 months of the current season, August to February, total exports of American cotton amounted to 4,230,000 running bales, according to data released by the Bureau of the Census. This was an increase of 300,000 bales or 8 percent over exports in the corresponding period a year earlier, but was 26 percent less than the average for the like period in the 10 years ended 1932-33. From August 1 up to the end of January, domestic exports were about 12 percent above a year earlier as were exports during the month of January. During February, however, exports dropped to 18 percent below February 1937 and 38 percent below the 10-year average for the month. In the first 22 days of March total shipments to foreign countries were 17 percent less than a year earlier, according to unofficial data, and brought the total from August 1 through March 22 to only 7 percent above the corresponding period in the preceding season.

With the 1937-38 domestic supply of American cotton about one-fourth larger than during the preceding season, and with prices 15 to 75 cents lower than a year earlier, and with domestic mills using a much smaller amount, it becomes evident that foreign demand for American cotton so far this season has been much lower than most observers anticipated last summer and early fall.

General economic and political conditions in foreign countries, of course, have been more unfavorable than was expected. Had business conditions in foreign countries, especially the wholesale demand for cotton textiles, continued as favorable as in 1936-37, domestic exports so far this season undoubtedly would have been much larger than the 4,230,000 bales actually exported. This probably would have been true despite any effect the Government's loan program might have had on exports.

One of the most important factors depressing exports from the United States (see table on page 16) as well as exports from India, Egypt, and Brazil has been the conflict between Japan and China and the resulting repercussions on the economy of both nations. Partly because of Japan's difficulty in obtaining foreign exchange with which to finance the purchases of import commodities, the Japanese exchange allocated for the purchase of raw cotton has been very greatly restricted. This, together with the unusually large stocks of raw cotton hand in Japan at the beginning of the season, the unusually large takings during the first 6 or 7 months of last season, and the reduced sales of cotton textiles by Japanese mills, largely account for the much smaller takings of American, Indian, Egyptian, and Brazilian cotton than a year ago. For the first 7 months, August through February, exports of American cotton to Japan were only 31 percent as large as a year earlier and in the 5, 6 and 7 months ended December, January and February, exports to Japan from Brazil, India and Egypt were 85, 21, and 26 percent, respectively, as large as in the corresponding period last season. The low level of cotton mill consumption in China and the resulting large quantities of unused raw cotton in that country have indirectly depressed the world demand for American cotton and most other growths. While apparently Japan has not as yet obtained very much of this Chinese cotton for use in Japan, efforts are being made to devise means of securing substantial quantities of this cotton with which to meet current requirements and perhaps build up the currently greatly depleted stocks.

Domestic exports to Japan for the 7 months ended February were 740,000 running bales less than a year earlier, but exports of American cotton to all other countries combined were a little more than a million bales or 37 percent larger than from August to February last season. Most of the other countries that normally take considerable quantities of American cotton increased the amounts for the 7-month period. Because of the continued unsatisfactory developments in the cotton textile situation in most foreign countries during the past several months, however, many of these countries have greatly restricted their purchases since the latter part of 1937. In February domestic exports to five of the six largest importers of American cotton were from 8 to 60 percent less than in February 1937.

DEMAND AND CONSUMPTION

UNITED STATES: Cotton textile sales and output continue low

Sales of unfinished cotton textiles by domestic mills were reported to have exceeded the restricted output during the third and fourth weeks of February, but in the first 3 weeks of March the unfinished cotton cloth market again became less active. Manufacturers' sales of finished goods are reported to have apparently about equaled the greatly restricted output during February and the first 3 weeks of March.

Total domestic cotton consumption in February was the lowest for the month since 1921, amounting to 428,000 running bales compared with 666,000 bales a year earlier and with 516,000 bales in February 1936. For the 7 months, August through February, mill consumption totaled 3,513,000 bales, about 1 million bales or 22 percent less than a year earlier and about the same as from August through February 1935-36. With the exception of 1935-36, mill consumption through February this season, however, was the largest for any corresponding period since 1929-30.

During February the index of United States cotton consumption, adjusted for seasonal variation, was 83 (1923-25 = 100), about the same as in January, but 37 percent less than a year earlier, and 20 percent below the average for the first half of the season. Trade reports indicate little change in activity in March compared with February. It seems quite likely that unless business conditions and retail sales of cotton textiles decline much further, domestic cotton mill activity will increase from the comparatively low levels before the end of the season. A very substantial increase from present levels is obviously necessary, however, if consumption for the season is to equal the annual rate of the first 7 months of the season which was about 6 million bales, a figure approximately 25 percent below actual consumption in 1936-37.

Margins between average price of raw cotton per pound and wholesale price of unfinished cotton cloth (17 constructions) 1935-36 to date

EUROPE: 1/ Current situation unfavorable in most countries

The first 7 months of the 1937-38 cotton season turned out less favorable for the European cotton textile industry than was expected at the beginning of the season. The industry, over most of Europe, experienced a considerable decline in sales and activity, particularly during the latter part of the period. Although total cotton consumption during the first half of the season was larger than a year earlier, it now appears that 1937-38 mill consumption of raw cotton in Europe may fall short of the comparatively high consumption of 1936-37.

The recession in new sales in domestic and export markets, followed by a decline in mill output, resulted from the adverse developments in general economic conditions in the world at large. In countries such as Germany and Italy these outside influences have not been felt to any great extent as yet in the general operations of the cotton industry, but even there the greatly expanded export business has apparently started to decline. Activity in the German and Italian cotton textile mills remains rather favorable, although on a basis involving increasing substitution of artificial fibers for raw cotton. The considerably larger takings of raw cotton by Germany during the first half of the current season have not prevented a further decline in the share of raw cotton in total German consumption, since there has been, simultaneously, a considerable expansion in the utilization of "cell-wool" by spinning mills.

Europe as a whole apparently consumed considerably more (estimated by the New York Cotton Exchange Service at 9 percent more) raw cotton during the first half of 1937-38 than in the first half of the previous season. Consumption during February and March, however, appears to have been much less than a year earlier. Consumption of American cotton, as a result of the improved competitive position, represented a considerably larger proportion of the total than in the first half of 1936-37. While February developments brought a sharp rise in cotton prices, the advance in non-American cotton during the month was of an almost equal amount, so that the competitive position of American cotton at the end of the month had not changed significantly compared with a month earlier, but American cotton continued to be much cheaper in relation to competitive growths than it was a year ago.

United Kingdom.- In the first 7 months of the current season a recession from the high levels of 1936-37 was clearly evident in the British cotton textile industry. Except for a relatively bright period in September and October 1937, the tendency in manufacturers' sales and production was downward during the period. It should be remembered, however, that 1936-37 was a very favorable season, during which mill consumption of raw cotton

1/ Based largely upon a report prepared by Lloyd V. Steere, Agricultural Attaché, Berlin, Germany, dated March 7, 1938. Information on the United Kingdom supplied by C. C. Taylor, Agricultural Attaché, London.

rose to higher levels than during any of the preceding 7 years. Mill consumption of raw cotton in the first half of 1937-38 was slightly larger than a year earlier, but in February was much lower than in 1937. The number of workers employed in January was the smallest for many years.

Developments during February and early March for the most part continued unfavorable. Cotton yarn sales have been very slow, for the most part. In the American section, buying of yarns in counts and qualities not covered by the legalized price agreements appears to have been better than in most other qualities, but most business was chiefly on a hand-to-mouth basis. The stoppage of spindles in some mills during 2 weeks in February is said to have brought little improvement in the yarn supply situation. Manufacturers of piece goods found the offers from India generally unacceptable. The home market, however, provided some encouragement.

Exports of both yarns and piece-goods were exceptionally small during January and February. Piece-goods exports in February were 29 percent less than a year earlier and the smallest since prior to 1900. During the 7 months from August through February, exports of piece-goods were 10 percent less than last year.

Cotton deliveries to British mills from August 1 to February 26 were approximately 1,685,000 bales, as compared with 1,721,000 bales of 478 pounds net last year. Despite a drop in the proportion of American cotton delivered during the last few weeks of this period, the latter represented 47 percent of the total since August 1 as compared with 43 percent during the corresponding 30 weeks of 1936-37. Stocks of American cotton on February 25 were the highest in many years and, despite the declining imports, even higher than a month earlier. Stocks of Indian increased seasonally during January and February, but on February 25 were still below last year's level.

Germany.—Official data from the German cotton industry show continued high mill activity throughout the first half of the current season. Operations appear to have even been about equal to or slightly higher than 1 and 2 years earlier. German net imports of raw cotton, cotton waste and reclaimed cotton spinning material in the first half of 1937-38 showed a great increase compared with a year earlier. This, together with the availability of much more "cell-wool" for cotton spinning purposes, indicates that the raw material supplies have been considerably expanded as compared with August-January 1936-37.

As time passes, it becomes increasingly apparent that the raw material problem of the German cotton industry is undergoing a significant change. For a long time, Germany was faced with a shortage of raw material, arising from inability to pay for foreign cotton. As a result of a large domestic production of staple fiber, the increased use of cotton waste and regenerated cotton, lower cotton prices, and increased exchange allotments, the situation has improved. Yet shortage still persists — not an absolute shortage as compared with normal supplies of raw material but a shortage in relation to the greatly increased consumer demand for textiles which has

developed in the past 2 or 3 years. Thus, retail sales of textiles in 1937 (in value) were 15 percent above those in 1936 and 50 percent above 1933; largely the result of an increased volume of goods sold. This development has made the increase of raw material supplies a matter of great urgency, since there is a definite retail shortage, which still persists in a large number of cotton textiles and textile products.

Greater output and significantly larger raw material supplies also have been required to take care of the reduction in German yarn and cloth imports, and to provide for the increase in exports of cotton textiles during the first 5 months of this season as compared with the same period of 1936-37.

The decline in German use of raw cotton and its effect upon the composition of all spinning materials used by the cotton mills is shown by the following figures:

Item	Aug. - Dec.				
	1933-34	1934-35	1935-36	1936-37	1937-38
: 1,000	1,000	1,000	1,000	1,000	1,000
: pounds	pounds	pounds	pounds	pounds	pounds
Net imports of raw cotton ..	322,006	142,035	275,260	200,850	270,394
Net imports of cotton waste, linters and regenerated cotton ..	26,466	82,113	60,247	72,225	94,249
Utilization of "cell-wool" ^{1/}	---	6,614	17,637	44,092	88,184
Total	348,472	230,812	353,144	317,167	452,827
: Percent	Percent	Percent	Percent	Percent	Percent
Net imports of raw cotton ..	92	62	78	63	60
Net imports of cotton waste, linters and regenerated cotton ..	8	35	17	23	21
Utilization of "cell-wool" ..	---	3	5	14	19
: 100	100	100	100	100	100

^{1/} Estimated; roughly 80 percent of domestic production.

The larger imports of raw cotton by Germany in the current season have been facilitated by the decline in raw cotton prices. Imports have shown increases compared with last year, notably from the United States and Brazil, as well as Egypt. The share of United States cotton in the August-December imports was about 27 percent compared with only 30 percent a year earlier but with 78 percent in 1932. The higher imports this year to some extent have gone to replenish the greatly depleted stocks, and it is even likely that the authorities - as in the case of other raw materials such as grains - have begun to set aside emergency reserves of spinning material. Bremen stocks of raw cotton on February 28, 1938, were 258,000 bales, compared with 193,000 a year earlier and 227,000 bales 2 years earlier.

Czechoslovakia. - Following a good season, the first half of 1937-38 has been less favorable. Orders, deliveries and production of the cotton mills declined, imports of raw cotton were somewhat below a year earlier, and prospects for the second half of the season are uncertain. The main causes of these adverse developments have been the recession in general business conditions - entailing reduced domestic demand - and stagnation in textile export sales for later delivery.

Actual foreign trade statistics for the latter part of 1937 - recording exports of goods sold earlier in the year - show that exports of cotton yarns and manufactures kept up fairly well, running above the corresponding months of the preceding year. Sales have been smaller, however, during the first 7 months of the current season.

France. - While French cotton spinning mill activity during most of the first half of the season was well above a year earlier, weaving mill activity was somewhat below the corresponding period last season. As a result, yarn stocks in spinning mills increased considerably and at the end of 1937 were the largest in more than 2 years. It should be noted, however, that, at the same time, unfilled orders in spinning mills were maintained at a level considerably above any of the past several years. This again is contrary to the position in the weaving branch where, since April 1937, unfilled orders have fallen drastically below a year earlier. This divergence in the occupation of spinning and weaving mills is explained in part by the pick-up in yarn exports during 1937, as compared with 1936.

Mill stocks of cotton fabrics have been above those of 1936-37 despite reduced mill activity. Exports of fabrics showed a decline as compared with 1936.

While there were unsatisfactory developments in the French cotton industry during the first half of the current season, and numerous complaints made by the industry, stiff resistance was shown to adverse influences and mill activity, especially in the spinning mills, held up relatively well. Taking the legal shorter working week of 40 hours into consideration, the degree of mill activity has been fairly satisfactory. French imports of raw cotton in the first half of 1937-38 were below those of the corresponding period last season but larger than 2 years ago.

Since the beginning of 1938, trade reports pertaining to the French cotton textile industry, for the most part, have been unfavorable. Mill activity apparently has been materially reduced, yet manufacturers' sales are reported as having been below output in most weeks, with stocks increasing and unfilled orders being further reduced.

Belgium.- According to a report of the Association Belge des Filateurs de Coton, the decline in general business activity has been felt keenly by the Belgian cotton industry. According to the report, the weakness and uncertainty of raw cotton prices up to the end of 1937 added to the difficulties of the cotton industry. Buyers of cotton yarn were rather cautious over most of the last quarter of 1937 and early in 1938. Deliveries on old contracts slowed down and unfilled orders declined. As a result, stocks of yarn increased and mill activity was curtailed.

Reports to the New York Cotton Exchange Service indicate that, throughout most of January, February, and the first half of March, manufacturers' sales of cotton textiles were below the restricted production.

Switzerland.- The improvement experienced in the Swiss cotton textile industry following the devaluation of the franc in the fall of 1936 ended in the first half of the 1937-38 season. Mill occupation remained rather high on old orders from August through January, but new business - both domestic and export - was reduced in recent months and mill activity apparently declined considerably from the latter part of 1937 to early March. In view of this, it is expected that cotton consumption in the second half of the current season may be considerably lower than in the first half.

Poland.- Imports of raw cotton into Poland from August through December 1937 were much larger than usual. Some of this cotton must have gone into refilling depleted stocks, since cotton mill activity - while above a year earlier - showed a corresponding increase.

Notwithstanding the increased imports of cotton, March press reports from Poland announced the opening at Chodakow near Warsaw of a new factory for the production of "ceil-wool". Present capacity amounts to 11,023 pounds daily but production is to be increased to 44,092 pounds. A plant has been opened near Lodz for the production of lanital. Reports also announce efforts toward organized collection of used material for production of regenerated cotton.

Italy.^{2/} Italian cotton mill activity seems to have continued during February and early March at the high rate reached in previous months, but to a considerable extent is apparently being maintained on the execution of old orders. An apparent lack of interest on the part of buyers, particularly outside of Italy, is causing doubts as to the possibility of keeping production at the present rate throughout the year. The recession in foreign buying has been attributed principally to the decline in international trade. The domestic market seems to be overstocked with high-priced goods which retailers are finding difficult to sell. The outlook for the cotton trade, therefore, seems distinctly less promising than in preceding months.

Italy's importation of 761,000 bales of 478 pounds net of raw cotton in 1937 was about 60 percent larger than during the preceding year and compared with imports of 862,500 tons in 1934. Imports during earlier years normally averaged 876,000 to 922,400 bales per year.

The increased importation of cotton was due largely to the removal of sanctions, which had depressed Italian exports and, therefore, imports during the greater part of 1936. The revival of international trade during the latter part of 1936 and in the first half of 1937 increased the foreign demand for Italian goods, and the devaluation of the lira in October 1936 gave Italian manufacturers and exporters an advantage over their competitors in foreign markets, thus stimulating the activities of the Italian cotton mills. This increase in exportation of cotton goods enabled the industry to import more cotton, although imports for domestic consumption remained rigidly restricted.

Italian raw cotton imports, 1934-37

Source	1934	1936	1937
	: 1,000 bales : (478 lbs.)	: 1,000 bales : (478 lbs.)	: 1,000 bales : (478 lbs.)
Total	362	466	761
United States :	530	341	452
Egypt	17	65	138
India	148	32	63
Brazil	9	14	32
Other countries	16	14	56

^{2/} Information received from the American Consulate, Milan.

The increase in Italian cotton goods exports in 1937 brought a large expansion in sales of cotton yarn, the most important customers being Yugoslavia and Rumania. The gain in Italian exports of cotton fabrics and other cotton manufactures was also very large, the most important buyers being the Italian colonies, Egypt, Argentina, and Turkey.

Italian cotton goods exports, 1936 and 1937

Year	Other			Total
	Cotton yarns	Cotton textiles	manufactures	
	1,000 pounds	1,000 pounds	1,000 pounds	
1936 ...	14,857	53,190	5,600	73,647
1937 ...	44,006	96,806	13,664	156,476

A tentative calculation of imported raw cotton going into domestic consumption indicates that in both years - 1936 and 1937 - about 345,900 bales of 478 pounds of cotton were thus utilized, including goods shipped to the colonies. If the colonies are excluded, consumption for Italy proper fell from about 300,000 bales in 1936 to 276,700 bales in 1937. This decline probably was made up by the use of the various cotton substitutes in the production of yarns and textiles, the most important of which are staple fiber (called "cell-wool" in Germany) and "cottonized" hemp.

The U. S. S. R. - The new Commissar of the Light Industry recently stated that the Soviet cotton textile industry is to produce 4,155,000,000 yards of finished fabrics and 1,235,000,000 pounds of yarn in 1938. Since the total 1937 output of finished fabrics apparently amounted to about 3,500,000,000 yards, the above figure of 4,156,000,000 yards would be an increase of about 19 percent. This year's Plan, however, is about 7 percent below the 4,466,000,000 yards provided for by the 1937 Plan. The introduction of new methods and the repairs and improvement of old equipment are claimed to be the chief aims in the cotton textile industry at present. It is also stated that the discrepancy between spinning and weaving must be overcome, and the adequate manufacture of low quality cotton must be ensured.

In contrast to former years, when the cotton textile industry had very little carry-over of raw cotton and frequently encountered difficulties in making supplies last until the new crop became available, present stocks of cotton are characterized as "considerable and such as we have never had before" (according to the Chairman of the Council of Peoples' Commissars).

ORIENT: Cotton consumption restricted in Japan; very low in China but high in India

3/

Japan. Total production of yarn by Japanese mills in February amounted to 277,000 bales (400 pounds) compared with 270,000 bales in January and 330,000 bales in February last year. In February this year, however, 72,000 bales were produced from a mixture of cotton and staple fiber, whereas in January only 21,500 bales were mixed and in February last year none of the yarn produced was mixed. In terms of raw cotton content the yarn produced in February this year was equivalent to approximately 253,000 bales of pure cotton yarn. This was about 5 percent below January and 22 percent below February last year. During the first 7 months of the season, the total equivalent production of pure cotton yarn was approximately 1 percent below the corresponding period of last season but larger than any other like period in history.

It is reported that this reduction in yarn production in January and February was due, at least in part, to the chaotic conditions in the Japanese industry. The serious shortage of raw cotton has been an important factor contributing to the drastic decline in cotton cloth exports. As a result, it is reported that the Japanese Department of Commerce and Industry has decided to relax the drastic curtailment of raw cotton imports and to allow a monthly importation of 238,000 bales effective April 1. It is estimated that this amount is sufficient for the production of about 257,000 bales of pure cotton yarn. This, together with the regulations requiring the admixture of staple fiber in yarn used in making piece goods for Japanese consumption, will enable mill activity to be maintained at about the February level or possibly slightly higher. Whether or not activities continue at this level, however, will depend upon the ability of Japanese mills to sell cotton yarns and piece goods.

Cotton cloth exports in February amounted to 183 million square yards compared with 163 million in January. While this represents a substantial increase, the exports for January were the smallest for the month since 1953. Pessimism is said to continue regarding the export outlook for the immediate future, in view of the rising prices since the control measures were instigated last August.

In addition to increased manufacturing costs and taxation, it is said that the extreme uncertainty within the industry has decreased manufacturing efficiency. Other handicaps during recent months include the decline in business conditions and the spread of voluntary boycotts in some of Japan's important cotton textile export markets, and uncertainties with respect to

3/ Based largely on radiograms of March 16 and 17 from the Shanghai Office of the Bureau of Agricultural Economics, based on data furnished by Kenneth C. Krantz at Osaka.

cotton textile prices. It is reported that the Japanese Government is greatly concerned over the cotton textile export situation from the standpoint of its effect on the trade balance and employment. The Government is said to be considering giving further export subsidies although no information is available regarding the means of making these subsidies.

^{4/} China, including Manchuria. Mill activity in Shanghai increased considerably from early February to early March and some slight increase occurred in other parts of China. It is estimated that in early February the monthly rate of cotton consumption was approximately 95,000 bales compared with 85,000 bales a month earlier and 235,000 bales a year earlier. Negotiations with respect to the reconstruction of Japanese mills in Tsingtao became more active toward the end of February. Representatives appealed to the Japanese Ministry of Finance for low interest rates on a loan of 50 million yen for the installation of 450,000 spindles and 9,000 looms to be appropriated in proportion to the former capacity of the mills which were destroyed. It is not yet known whether the loan will be granted, but if the plan is approved, it is expected to take more than a year to complete the reconstruction, although partial operation of these mills probably will be resumed this fall.

Shanghai spot yarn prices advanced sharply during February and early March owing to increased demand from South China ports, especially Canton. Prices of Chinese cotton in Shanghai made small advances, while prices of foreign growths showed no significant improvement.

India.— Trade reports indicate that mill consumption of raw cotton in India continued at an unusually high level during February. As a result, total cotton consumption by Indian mills for the first 7 months of the season probably was larger than in any like period in history.

SUPPLY

Developments point to sharp reduction in world production

With little change expected after February or March in the estimates of the 1937-38 world cotton production and supply of cotton, and with planting getting under way in the United States and several foreign countries, new crop prospects usually become of increased importance about this time each year.

^{4/} Based largely on a radiogram from the Shanghai Office of the Bureau of Agricultural Economics dated March 12.

While it is obviously too early to make an accurate estimate of either acreage or production, it is generally agreed that a number of rather unusual circumstances in the situation make it seem quite likely that the 1938-39 world crop will be considerably smaller than the record production of 1937-38.

In the United States, the recent cotton referendum indicated that more than 90 percent of the cotton farmers were in favor of a cotton marketing quota in 1938-39. This suggests that the 1938 domestic acreage may not be materially different from the national acreage allotment of about 26,300,000 acres. With a 10-year average yield (1928-37), such an acreage would give a crop of about 10,100,000 bales and with yields equal to the past 5 years, a crop of 11,200,000 bales. A crop within this range would be 7,700,000 bales to 8,800,000 bales, or 40 to 47 percent smaller than the record crop harvested last year. The per acre yield in 1938 could materially exceed the unusually high average of the past 5 years and the domestic crop still be very much smaller than that of 1937.

Because of the materially lower prices received by foreign cotton producers during the current marketing season and the fact that in China, especially, many producers have been unable to sell much of their cotton at any price, it is expected that foreign acreage and production in 1938-39 may be lower than a year earlier.

It is no doubt quite generally recognized, however, that in view of the prospective world mill consumption of cotton during the 1937-38 season, the world carry-over of raw cotton on August 1 next will be several million bales larger than a year earlier. It is quite possible that the increase in the carry-over may entirely offset the reduced production.

Cotton: Exports from United States, specified periods

CS-17

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Country to which exported	February			7 months, August through February						
	Average for:	1938	as a per-	Average for:	1936	1937				
	10 years ended	1937	percentage of	10 years ended	37	38				
1932-33	1,000 bales	1,000 bales	Per cent	1,000 bales	1,000 bales	Per cent				
United Kingdom	149	107	93	65.8	91.6	1,336	660	1,293	96.3	150.3
France	61	47	25	41.0	53.2	645	555	640	99.2	109.4
Italy	56	33	34	60.7	103.0	404	235	367	79.1	126.2
Germany ^{1/}	140	58	24	17.1	41.4	1,348	453	572	42.4	126.3
Japan	112	162	108	96.4	66.7	910	1,076	336	36.9	31.2
China	22	1	5	22.7	500.0	197	10	6	3.0	50.0
All other	101	78	105	104.0	134.6	811	702	1,017	125.4	144.9
Total	641	456	399	62.2	32.1	5,711	3,921	4,231	74.1	107.9

Compiled from reports of the Bureau of the Census.

^{1/} Includes shipments through the free port of Bremen, much of which is afterward reshipped to other countries. According to German official trade returns imports of American cotton for consumption in Germany amounted to 164,000 bales in August-January 1937-38 and 95,000 bales in 1936-37, compared with total exports of American to Germany of 543,000 and 395,000 bales, respectively, during these two periods.